

WEBINAR

SESSION II

Trade and Climate Change Mitigation and Adaptation: Implication for developing countries

Tuesday 27 July 2021 | 2-3 p.m. CEST





Impacts of climate change policies on developing country export markets

Tom Moerenhout
27nd July 2021



Climate Change Policies

Climate change policies:

- Net-zero targets:
 - Adopted in at least 6 countries
 - Awaiting formal adoption in 6 more
 - Under discussion in 100 more
- Circular economy policies
 - Notion of circularity is gaining speed
 - EU, China, Indonesia, India, Mexico and South Africa all have frameworks in place
- Those who adopted of have specific net-zero plans account for 68% of world GDP and 56% of its population

Question:

- What can be the impact of such policies on the export of goods from low-income economies?

How to assess impact on exports?



Method:

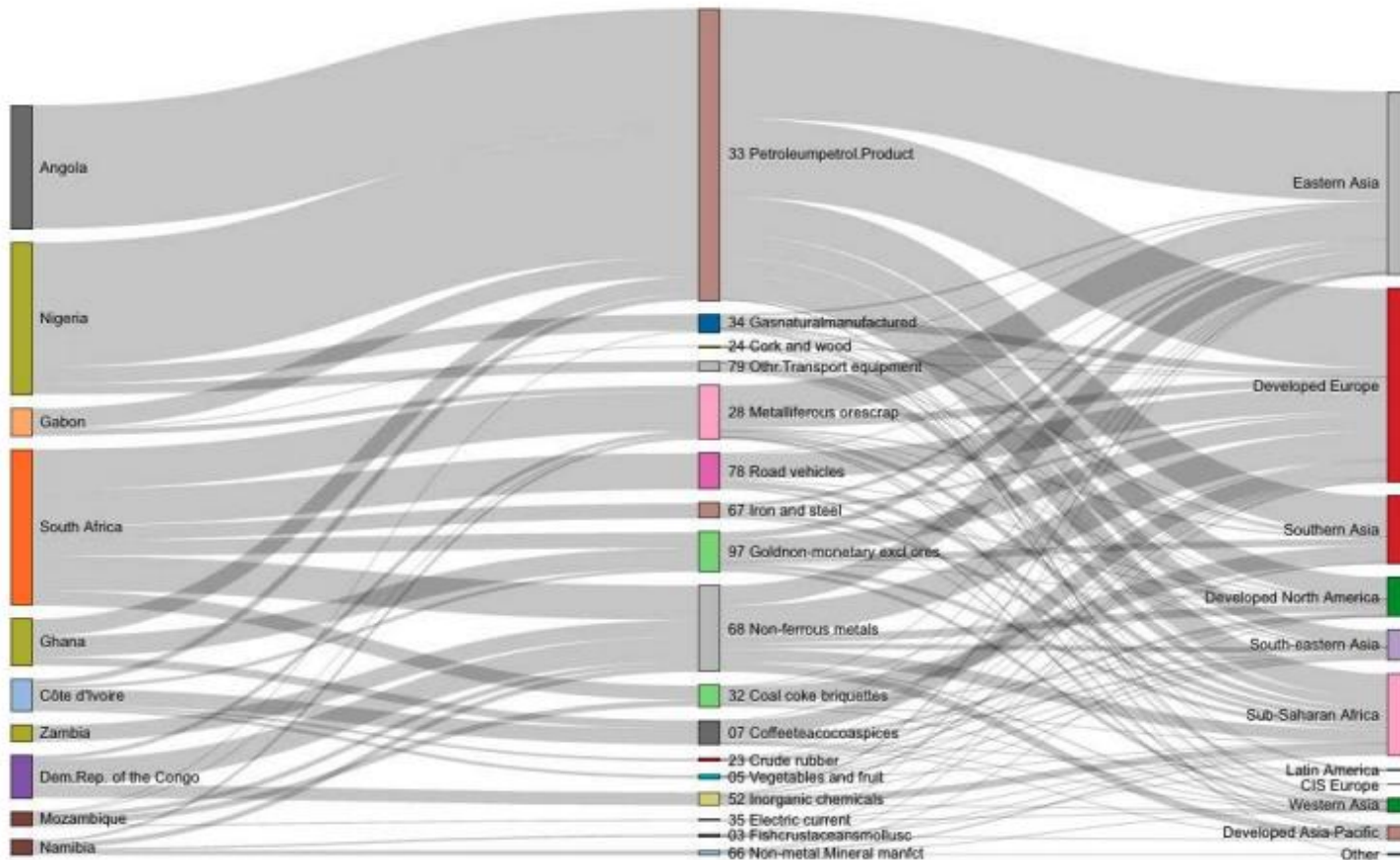
- Assessment of 22 major net-zero commitments & 28 circular economy plans
- Deduce most common elements by sector
- Assess current trade patterns & growth forecasts in key sectors
- Focus on Sub-Saharan Africa, low-income countries, and LDCs

Caveats:

- Uncertainty about actual implementation of climate change policies
- Potential of import substitution
- Ability of developing countries to diversify economies (downstream)
- Non-linearity of change



Impacts on exports

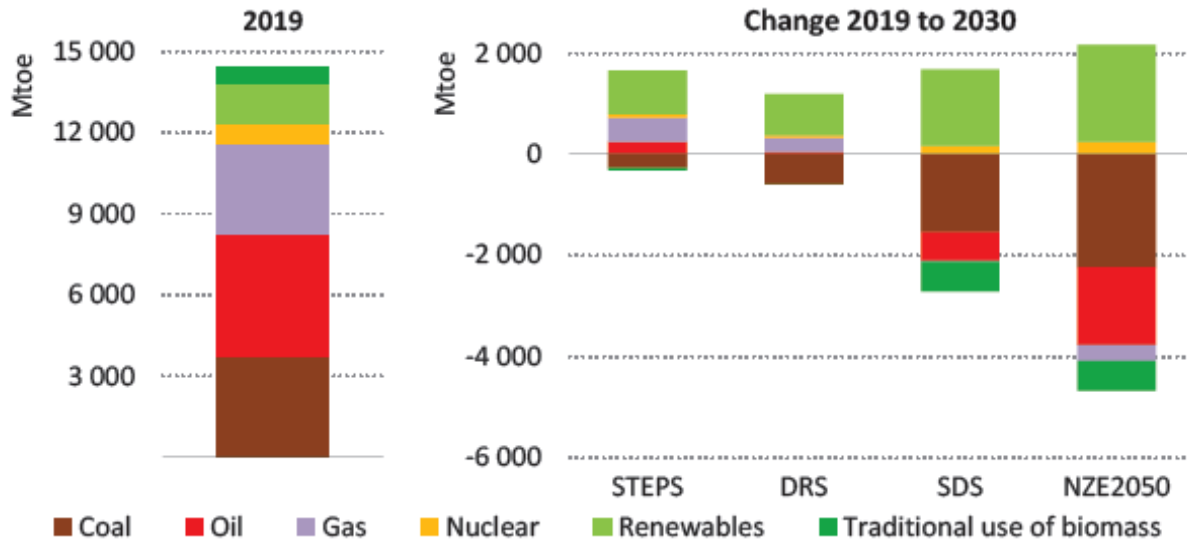


Source: UN Comtrade Analytics 2021

Key threat: A reduction in fossil fuel consumption

Key opportunity: Growing market for metals & minerals

Reduction in fossil fuel consumption



Source: IEA 2021

Oil

- Demand may rise slightly but stagnate at the end of the decade
- International supply competition will increase given abundance of supply, as well as financial & fiscal power of competitors (e.g. KSA, Russia, Emirates, USA)

Gas

- Major demand growth to come from far away markets
- LNG infrastructure is very capital intensive & competition will be high

Coal

- Production already set to decrease
- Accelerated energy transition will only leave space for the lowest-cost producers



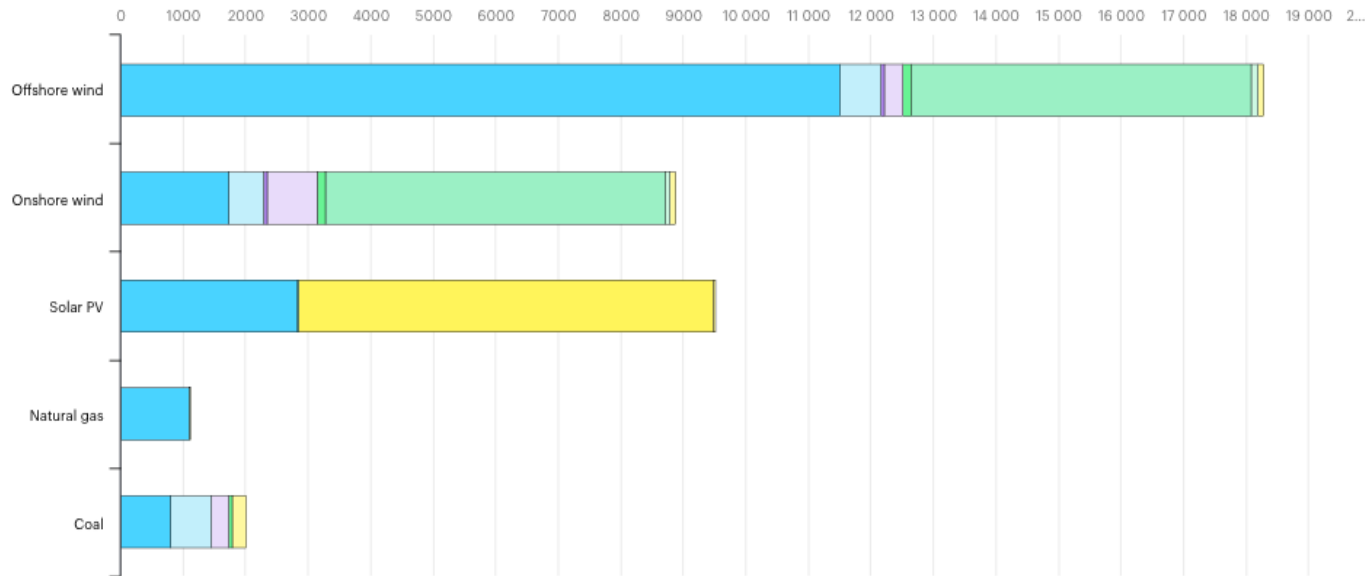
Impact on fossil fuel markets

Resource type	Export value sub-Saharan Africa (USD billion)	Export value LDCs (USD billion)	Key export markets	Projected trends
Fossil fuels	146	60		
Oil	123	49	Crude; refined	Tightening market for crude and refined oil in the short term
Natural gas	12.7	8	Natural gas; LNG	Tightening market for natural gas & LNG in the medium term
Coal	10	3	Hard and coking coal; brown coal	Tightening market for coal in the medium term

- Absolute impacts: Nigeria (USD 48 billion) and Angola (USD 40 billion)
- Relative impacts: Other low-income countries such as Republic of Congo, South Sudan, Chad, Sudan, Yemen
- Downstream diversification adds value but is time & capital intensive
- Refinery output in Africa shrank by 10% in last decade and grew by 70% in China
→ high-cost & high-risk

Growing market for metals & minerals

kg/MW



IEA. All Rights Reserved

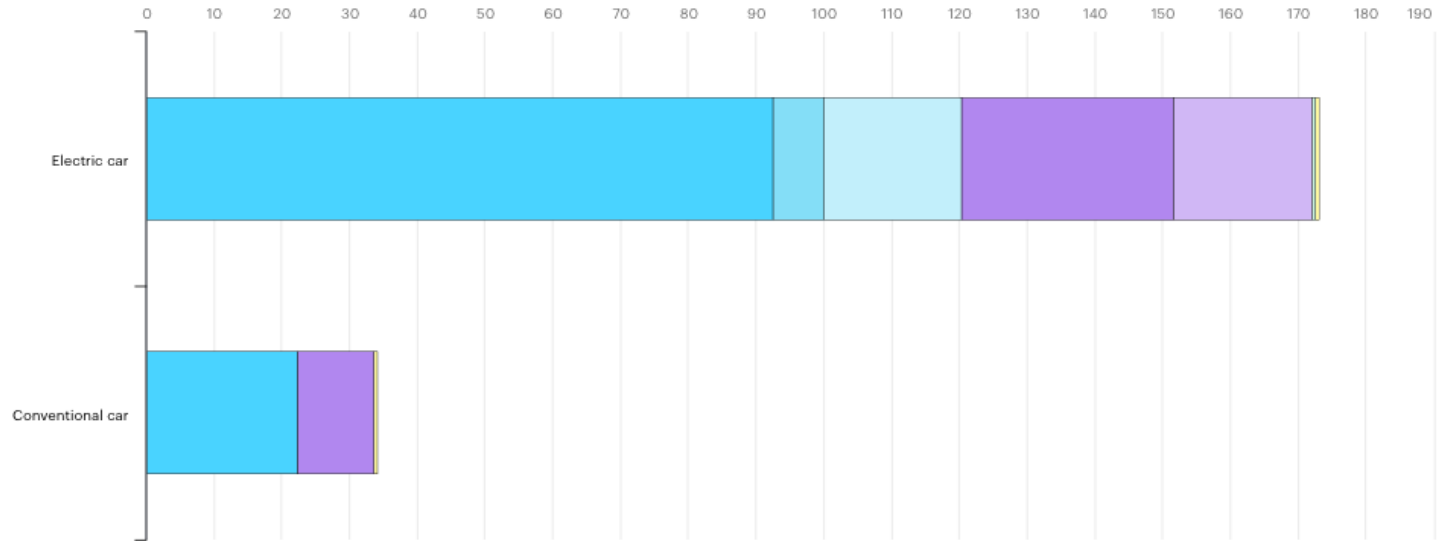
● Copper ● Lithium ● Nickel ● Manganese ● Cobalt ● Chromium ● Molybdenum ● Zinc ● Rare earths ● Silicon ● Others

Source: IEA 2021

- Huge potential in power sector

Growing market for metals & minerals

kg/vehicle



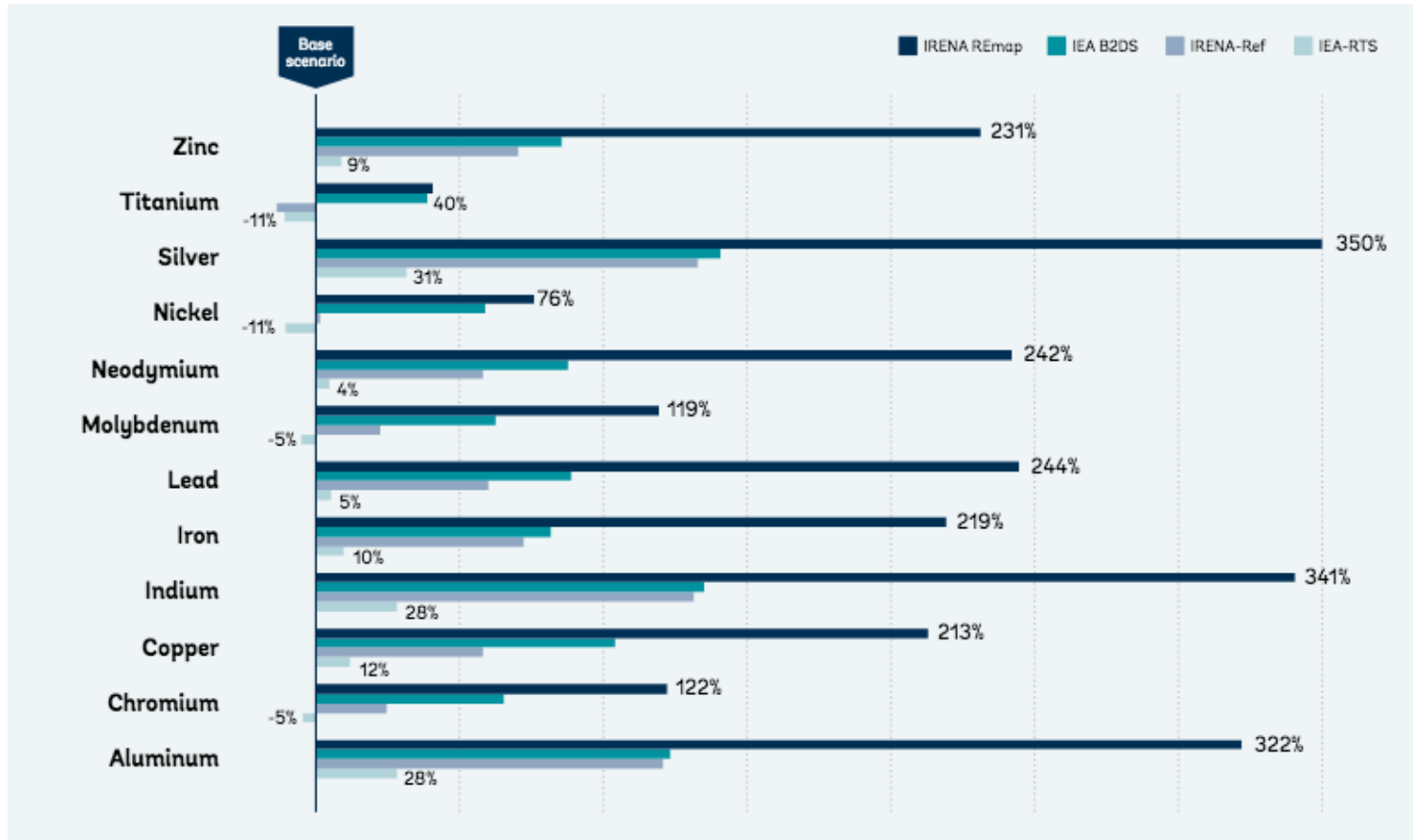
IEA. All Rights Reserved

● Copper ● Lithium ● Nickel ● Manganese ● Cobalt ● Chromium ● Molybdenum ● Zinc ● Rare earths ● Silicon ● Others

Source: IEA 2021

- And transport sector

Growing market for metals & minerals



Source: Hund et al. 2020

- Anticipated demand growth is immense

Impact on mineral & metal markets



Resource type	Export value sub-Saharan Africa (USD billion)	Export value LDCs (USD billion)	Key export markets	Projected trends
Metals & minerals	110	50		
Non-ferrous	41	27	Copper; aluminum	Growth potential due to an increase in RE, EVs, and electrification; more investment needed
Precious	39	14	Gold; platinum	Low impact due to lack of alternatives or circularity
Specialty	16	6	Manganese; cobalt	Growth potential due to an increase in battery use; more investment needed; time-bound for cobalt
Iron & steel	14	2	Iron ores & concentrates	Unclear: large energy transition iron demand but possible steel recyclability

- Demand forecasts are strong, in part due to supply-related challenges:
 - Export restrictions in key markets
 - Mines vulnerable to climate and water stress
 - Complicated story for cobalt

→ Investment needed

Figure 6. Share of fuel in exports of LDCs and sub-Saharan African countries (Avg. 2016–2019)

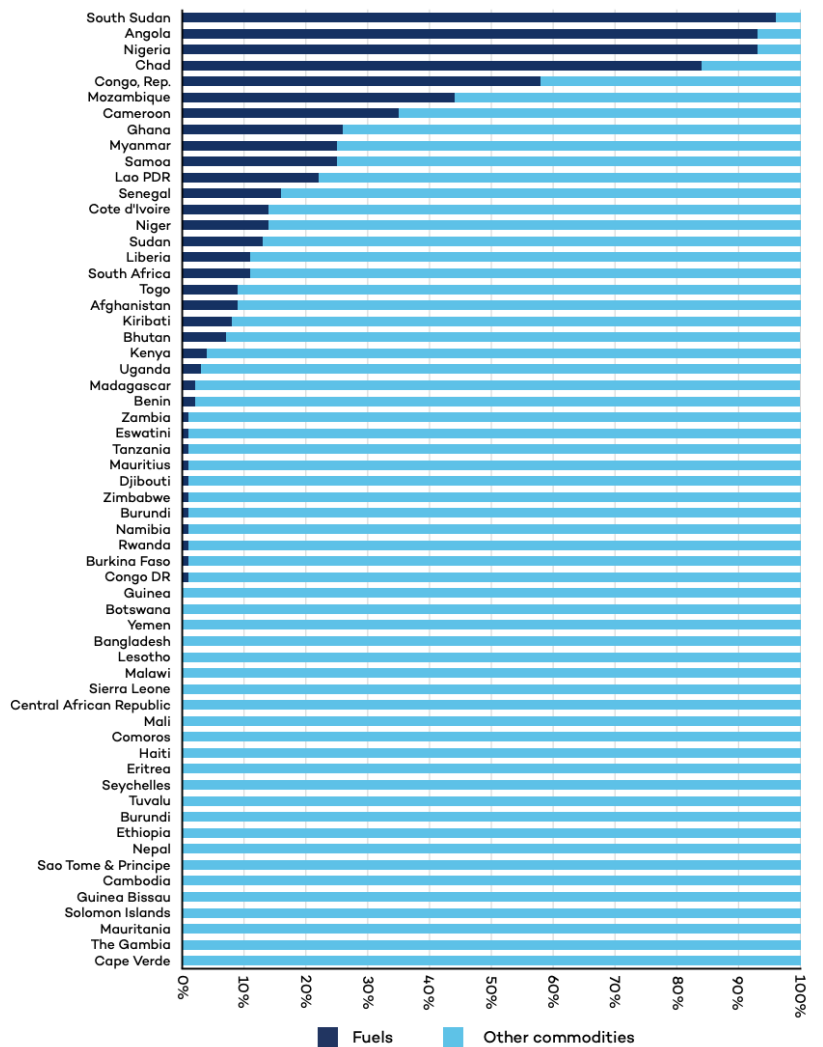
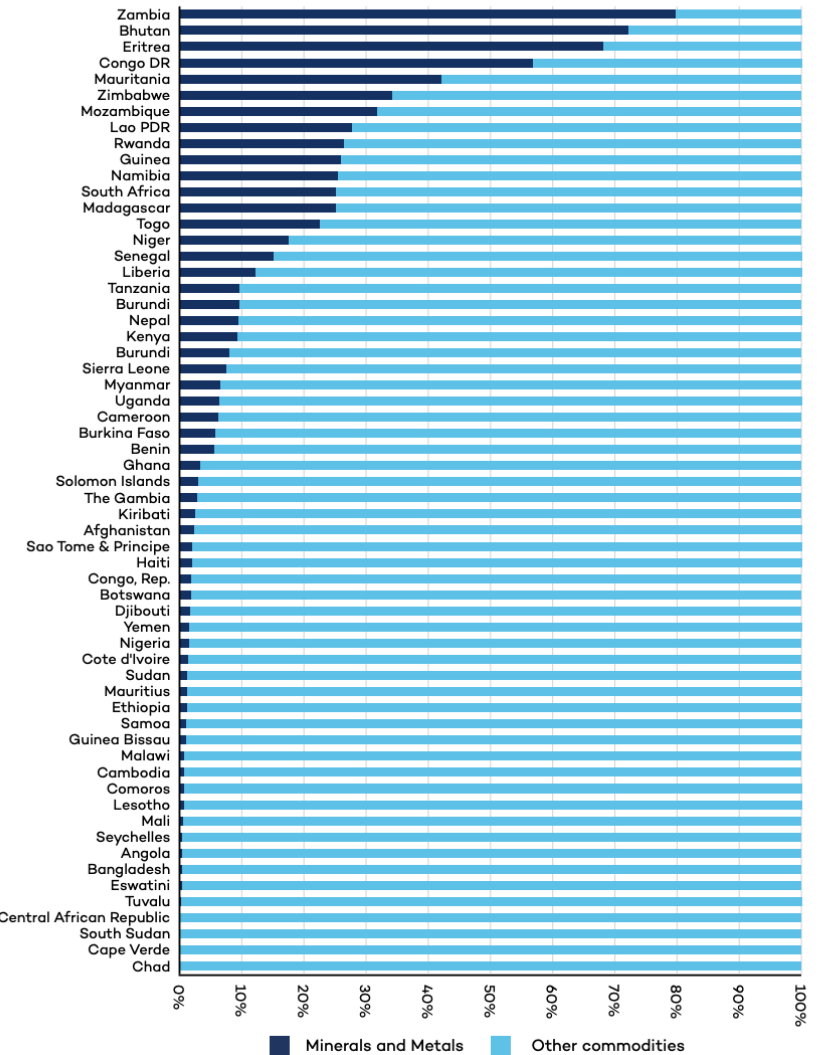


Figure 7. Share of minerals and metals in exports of LDCs and sub-Saharan African countries (avg. 2016–2019)



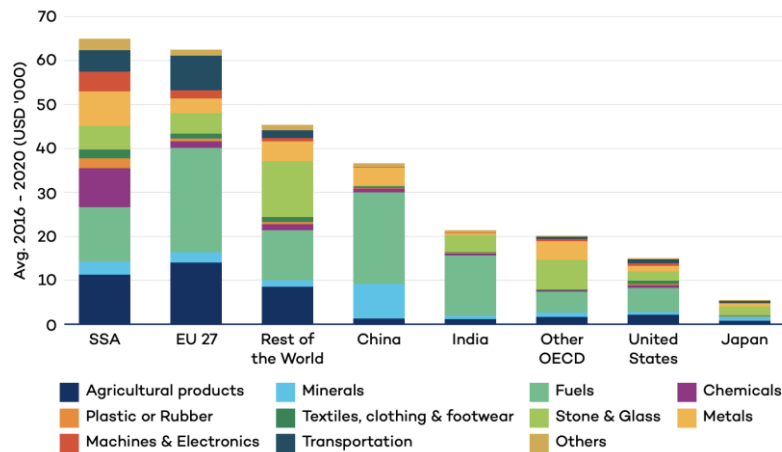
Source: Comtrade 2021



Emerging trade issues

- Countries reliant on fossil fuel exports need for diversification of economy, particularly of export revenue
- Support for South-South trade in diversification efforts away from fossil fuel trade flows
- Countries with minerals & metals reserve confronted with the challenge to avoid a new recourse curse, ensure local benefits (value added), and avoid unethical labor practices & environmental damage
- Enhanced technical assistance & capacity building to adapt to new requirements (e.g. ODA, Aid for Trade)

Figure 9. Exports of sub-Saharan African countries by category and destination (avg. 2016–2019)





Leveraging trade to support climate change adaptation in developing countries

Anne Hammill & David Hoffmann
27.07.2021



IISD

International Institute for
Sustainable Development

Trade and adaptation nexus

- **Climate change adaptation:** Preparing for and protecting against the negative impacts of climate change, while also taking advantage of any new potential opportunities
 - Adjustments to processes, practices, structures; fundamental shifts in how we make decisions
- **Adapting trade:** Trade needs to prepare for / adjust to the impacts of climate change
- **Trade for adaptation:** Trade can help countries prepare for / adjust to the impacts of climate change



Impacts of CC on trade

Changing climate conditions will affect the movement, volume and value of goods and services traded. In particular:

- Trade infrastructure
- Agri-food commodities
- Non-agricultural commodities
- Tourism services
- Financial services
- Human mobility



Trade for adaptation: 3 Pathways

Trade can help protect people, economies, and ecosystems from the impacts of climate change more broadly.

1. **Domestic trade policy measures** to facilitate access to and diffusion of goods and services for adaptation
2. Access to **trade-related financing mechanisms**
3. International frameworks on trade – **trade agreements**



Pathway 1- Domestic trade policy measures in support of climate adaptation

Domestic trade policy measures can be designed to facilitate access and the diffusion of particular goods, services and associated technologies required to adapt to CC. In particular:

- Tariffs
- Subsidies
- Government procurement rules
- Intellectual Property rights (IPRs)
- Private voluntary sustainability standards (VSS), labels and certification schemes, minimum requirements
- Trade and investment facilitation

Pathway 2 - Access to trade-related financing mechanisms

For international trade, the most promising entry points for facilitating access to adaptation finance are likely linked to **Aid for Trade (AfT)** and the **Enhanced Integrated Framework (EIF)**.

Aid for Trade (AfT)	<ul style="list-style-type: none">• AfT could be leveraged as co-financing to access climate finance from Green Climate Fund, LDC Fund and Adaptation Fund.• Integrating adaptation into trade-related ODA will help ensuring that trade supports / does not undermine adaptation.
Enhanced Integrated Framework (EIF)	<ul style="list-style-type: none">• EIF uses Trade Integration Studies (DTIS) and Action Matrices which identify trade and development priorities, reveals constraints to trade integration, and advises on key action areas.• Climate adaptation challenges and their potential impact on productive capacity and trade could be systematically integrated in the design of the DTIS and reflected in the design of specific development projects.

Pathway 3 - International frameworks on trade in support of climate adaptation

Trade agreements (TAs) offer **useful entry points for governments to identify and advance mutual areas of interest through targeted cooperation.**

TA's can be used to support:

- Broader policy cooperation on adaptation
- Information sharing and dialogue
- Cooperative capacity building
- Liberalization of climate adaptation goods and services
- Working toward harmonization or mutual recognition of environmental standards and regulations
- Fostering climate-resilient foreign direct investment (FDI)
- Incentivizing climate adaptation through subsidies

The role of adaptation policy instruments

The National Adaptation Plan (NAP) process

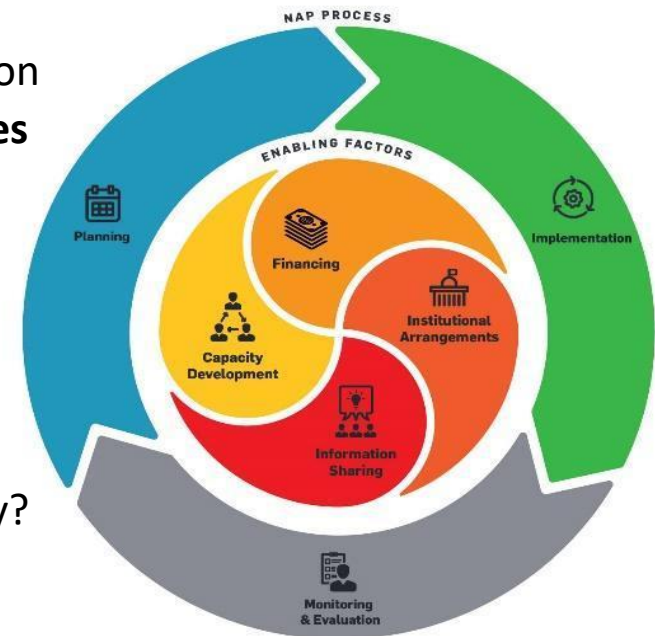
Established in 2010 under the UNFCCC's Cancun Adaptation Framework, the process consists of **the steps and activities that support the development and implementation of national adaptation plans**

→ **Example of prioritized adaptation measure:**

Enhancing hydrometeorological capacity in Fiji

- Goods and services required to implement priority?
- Which trade policy instruments can be used?
- How to use trade to finance this adaptation priority?
- Using TAs to enhance multilateral cooperation for this adaptation priority

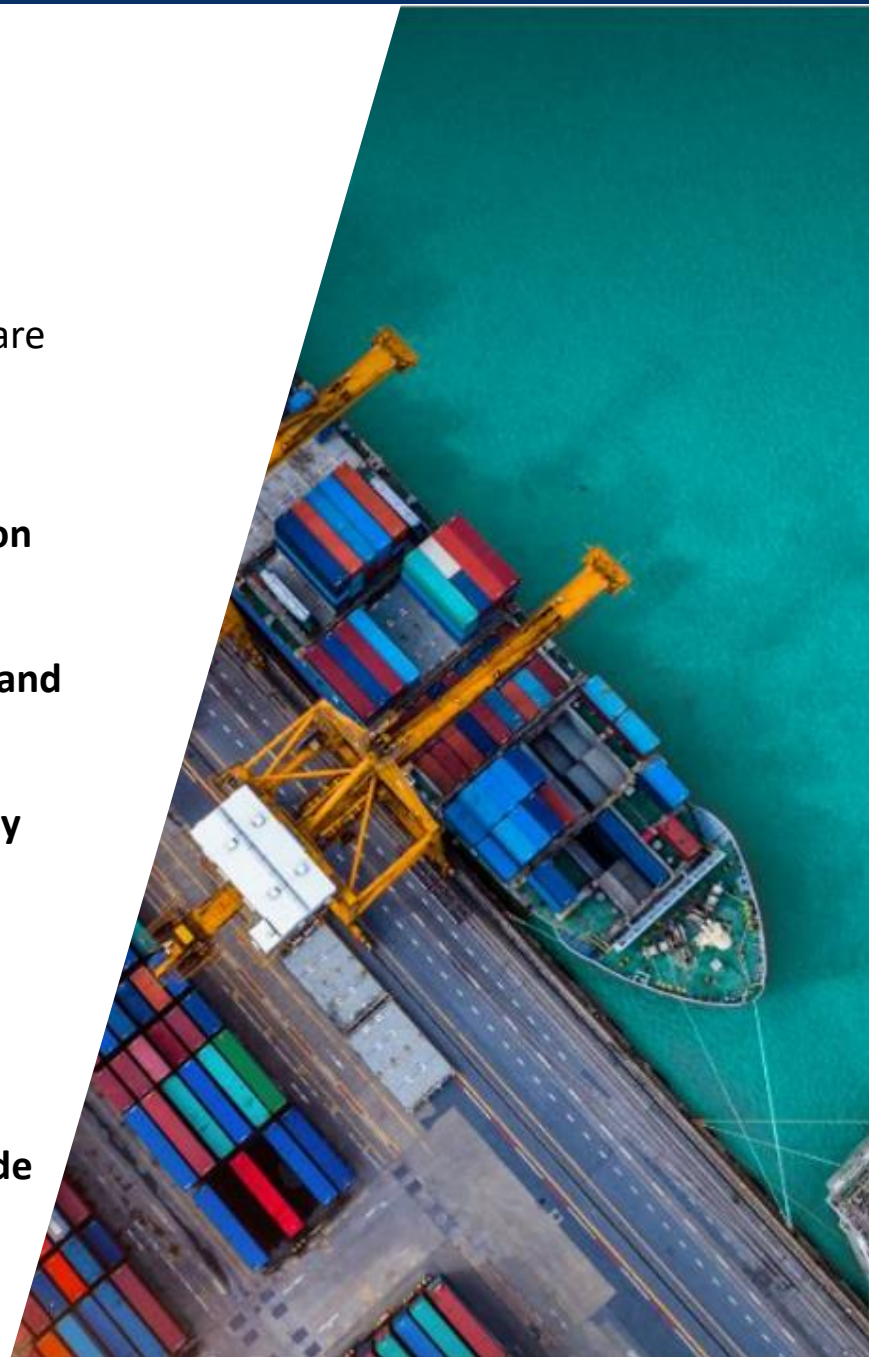
Figure 1 The NAP process



Conclusions and next steps

Several practical next steps and recommendations are proposed for strategically leveraging trade for advancing climate change adaptation:

- 1. Establish contact between trade and adaptation policy actors**
- 2. Support targeted engagement between trade and adaptation actors**
- 3. Conduct in-country assessments of trade policy instruments and the extent to which they support or constrain adaptation**
- 4. Integrate adaptation in Aid for Trade**
- 5. Use existing tools to identify entry points for integrating adaptation considerations into trade agreements**





Thank you!

For more information:

jdekens@iisd.org